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PUBLIC FINANCIAL MANAGEMENT

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Public financial management has garnered attention in almost every country in the world over the past 30 years, largely because of the financial crisis that gripped governments in the second half of the 1970s. At the time, controlling growth in public spending came to be seen as essential to curbing growth in deficits and debt and to limiting the tax burden. In other words, sound management of public funds was identified as a highly effective means of putting an end to the financial crisis and ensuring the sustainability of public finances.

The dominant conception of public financial management that grew out of this context is based on business management, although the methods employed have been adapted to the needs of the public sector. Moreover, the process involves political and administrative institutions whose players, funding sources and spending categories are undeniably quite particular.

In public financial management, decisions are made by national and local political players who define strategies in budgets that are prepared by executive authorities and that are democratically adopted by representative assemblies. A range of administrative units pursue the objectives set in the budgets following legally prescribed procedures and using appropriations allocated to them for that purpose. A large number of political and administrative players are involved in this process, which is complex in itself; however, it becomes even more complex when players from outside the public sector are involved as well.

Another feature of public financial management is that public resources are derived mainly from taxes paid by taxpayers, and they are used in the public interest to meet the needs of the population as a whole (in regard to security, health care, justice, road transport, education, etc.). The number and range of objectives involved simply highlights once again the singularity and complexity of the public financial system.

Ultimately, public financial management may best be described as public financial governance, for it revolves around political principles that are derived from the democratic tradition, as well as economic principles that stem from modern management. Consequently, it is concerned, at both the national and the local level, with the quality of the process that is used not only to prepare and adopt public budgets but also to implement and monitor them and assess their results. And, as a result, all of these stages are now framed in terms of transparency, operational programming, performance and accountability.

Transparency is essential to strategic decision-making and finds expression in budgets that involve readily identifiable objectives (or programs) and sub-objectives, and in an accounting system that is modelled on that used by businesses, namely, accrual accounting. However, financial transparency is not simply a matter of transparent budgets and public accounts; it also presupposes that elected officials and citizens are well-informed and that they have access to accurate and detailed information in schedules to financial bills, as well as through various means of communication, such as the Internet and other media. Moreover, for budgets and public accounts to be transparent, managers must report on their activities and performance. They also have to undergo consistency controls by specialized audit institutions, and even by the elected officials who voted for the budgets allocated to them. Lastly, the results achieved by managers must also come under scrutiny for assessment purposes.

Operational programming consists in defining the public policies, or objectives, to which appropriations will be allocated and that will have to be achieved within a given timeframe. It provides decision-makers with the time they need to implement policies, and managers with the visibility and time they need to take action and feel accountable. Annual budgeting, on the other hand, confines administrative action to the short term and does not allow the impact of budget decisions to be measured over time. For many years now, program budgeting has been the subject of much reflection and experimentation, as illustrated by the reports of the Taft (1912), Brownlow (1937) and Hoover (1949) commissions, as well as by the experiments conducted by Robert McNamara in the United States with the Planning-Programming-Budgeting System (PPBS) (1960s) and in France with an almost identical system called *Rationalisation des choix budgétaires* (RCT) (late 1960s). Multi-year planning is done on a rolling or semi-rolling basis; moreover, it covers the medium term and may involve the legal principle of annual budgeting. A program budget is a “budget of results,” and it differs from a “budget of means” (or line-item budget) in that it sets objectives and defines indicators for measuring the attainment of these objectives. In other words, it reflects a culture of performance.

Public financial management also involves the fundamental principle of accountability. Managers have access to global or aggregate appropriations that may be interchanged within programs or parts of programs that are under their responsibility. Managers who conduct performance audits may carry out their programs as they see fit; in fact, they have considerable latitude in this regard since they have the authority to redeploy appropriations. They can also decide on the best allocation of expenditures and convert operating appropriations into capital appropriations and vice versa. In exchange, managers have to commit to accounting for their management and to preparing performance reports. The quality of their management is assessed with indicators. Each program is associated with objectives and performance indicators that are representative of the program's priorities; these objectives and indicators are also incorporated into sub-programs. The objectives reflect program strategies and priorities and must be measurable using quantifiable indicators. In addition, they must address three sets of concerns: those of the general public, who are looking for socioeconomic effectiveness; those of users, who are looking for quality services; and those of taxpayers, who are looking for efficient management aimed at keeping taxes as low as possible.

Public financial management also involves the creation of a real chain of responsibility for driving the financial system. Each program is managed by a lead person who makes a commitment to the minister concerned to carry out the program. Program managers serve as a link between the government and the political sphere. Not only do they enjoy considerable latitude for allocating appropriations, they are also free to organize the human resources at their disposal. Lastly, they can divide their programs up according several different operational objectives, or sub-programs, if they think it is useful.

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